

Message Text

CONFIDENTIAL

PAGE 01 BONN 16585 151734Z

51

ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 EB-11 COME-00 INT-08 SCI-06

SCEM-02 TRSE-00 CIEP-02 OMB-01 NEA-10 DRC-01 /177 W

----- 004716

R 151724Z NOV 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 8739

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L BONN 16585

E.O. 11652: GDS

TAGS: ENRG, GW

SUBJECT: PROJECTED IMPACT ON FRG OF ARAB OIL CUTBACKS

1. SUMMARY. IF THE ARAB'S RELENTLESS SCHEDULE OF FIVE PERCENT MONTHLY PRODUCTION CUTS IS NOT REVERSED BY APRIL OR MAY THE FRG WILL SUFFER NOT ONLY A STEEP RECESSION, BUT SEVERE ECONOMIC DISLOCATION AND EXTREME HUMAN SUFFERING IN THE WINTER OF 74/75. THIS IS THE BASIC CONCLUSION OF AN EMBASSY STUDY ON OIL AND THE GERMAN ECONOMY IN L974. THIS STUDY WAS CARRIED OUT NOT ONLY TO CLARIFY THE ECONOMIC EFFECT OF THE ARAB OIL CUTS, BUT ALSO TO AID IN PREDICTING THE POINT IN TIME AT WHICH THE ARABS WILL HAVE PUSHED EUROPE TO THE POINT OF DESPERATION. END SUMMARY.

2. THE EMBASSY'S STUDY IS BEING FORWARDED BY AIRGRAM, THE SUMMARY OF WHICH IS REPEATED BELOW.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 16585 151734Z

3. THE EMBASSY HAS CARRIED OUT A STUDY (ACTUALLY A SIMULATION EXERCISE) OF THE EFFECT ON THE FRG IN 1974 OF CUTBACKS IN ARAB OIL PRODUCTION, UNDER ALTERNATIVE ASSUMPTIONS REGARDING PRODUCER ACTIONS. UNDER THE MOST OPTIMISTIC ASSUMPTION (BOYCOTT OF THE NETHERLANDS LIFTED NOW AND ARAB PRODUCTION CUTS REVERSED BY MARCH) THE FRG COULD ADJUST REASONABLY WELL TO THE LOSS OF DELIVERIES DURING THE CURRENT WINTER. REAL GNP GROWTH IN 1974 WOULD BE CUT TO ABOUT 3 PERCENT -- NOT AN ENTIRELY UNWELCOME DEVELOPMENT -- ALTHOUGH SOME INDUSTRIES, PARTICULARLY PETROCHEMICALS AND CARS, WOULD BE HARD HIT. THE OPPORTUNITY TO RESTOCK DURING THE SUMMER OF 1974 WOULD PREVENT ANY SERIOUS HARDSHIP IN THE FOLLOWING WINTER.

4. MAINTENANCE OF THE ARAB'S RELENTLESS SCHEDULE OF 5 PERCENT MONTHLY CUTBACKS UNTIL MAY OR JUNE, 1974 -- EVEN WITHOUT AN EMBARGO OF THE NETHERLANDS -- WOULD CAUSE A SIGNIFICANT RECESSION IN THE FRG. MORE IMPORTANTLY, HOWEVER, THIS SCENARIO - EVEN WITH SEVERE RATIONING AND FAIRLY PROMPT RESTORATION OF NORMAL DELIVERIES - WOULD MAKE IT UNLIKELY THAT THE FRG COULD REBUILD THE HEATING OIL STOCKS REQUIRED TO AVOID GREAT HARDSHIP IN THE WINTER OF 74/75.

5. MAINTENANCE OF THE SCHEDULED 5 PERCENT MONTHLY CUTS UNTIL MAY OR JUNE, AND A STRICT EMBARGO OF THE NETHERLANDS, WOULD BRING ON A SHARP RECESSION, COMBINED WITH SERIOUS ECONOMIC AND SOCIAL DISLOCATION, INCLUDING SUPPLY AND DISTRIBUTION BREAKDOWNS, SHORT WORK WEEKS AND PRODUCTION CUTBACKS UP TO 55 PERCENT IN SOME INDUSTRIES. EVEN WITH SEVERE RATIONING, THE FRG WOULD FACE THE 74/75 WINTER HEATING SEASON WITH NO HOPE OF AVOIDING EXTREME HUMAN SUFFERING BY ANY OTHER MEANS THAN MASSIVE IMPORTS OF HEATING OIL (BUT FROM WHERE?).

6. THE BASIC CONSTRAINT IN BOTH THESE SEVERE CASES IS THAT FRG REFINERIES, OPERATING AT 100 PERCENT CAPACITY, PROVIDE A MONTHLY LIGHT HEATING OUTPUT OF ONLY ONE-HALF THE WINTER-HEATING SEASON DEMAND.
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BONN 16585 151734Z

THEREFORE, BOTH FULL DOMESTIC PRODUCTION AND RESTORATION OF NORMAL IMPORTS WOULD BE REQUIRED BY JUNE TO REBUILD DEPLETED STOCKS FOR THE WINTER. THIS RESTORATION OF NORMAL EUROPEAN MARKET CONDITIONS BY JUNE WILL NOT BE POSSIBLE UNLESS THE ARAB PRODUCTION CUTS ARE CALLED OFF AND RESTORATION OF NORMAL CRUDE DELIVERIES BEGUN SOME MONTHS EARLIER, THAT IS IN APRIL AND MAY.

HILLENBRAND

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, SUPPLIES, PETROLEUM PRODUCTION, GNP, FUEL OIL, EMBARGOES, RATIONING
Control Number: n/a
Copy: SINGLE
Draft Date: 15 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BONN16585
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731132/aaaaaxrk.tel
Line Count: 116
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 01 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01-Aug-2001 by boyleja>; APPROVED <25-Sep-2001 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PROJECTED IMPACT ON FRG OF ARAB OIL CUTBACKS
TAGS: ENRG, GE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005